

Message Text

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ACTION COME-00

INFO OCT-01 EUR-12 ISO-00 STR-07 CIAE-00 DODE-00
INR-10 NSAE-00 PA-01 ICA-11 SP-02 DOTE-00 AID-05
EB-08 NSC-05 TRSE-00 SS-15 OMB-01 CEA-01 FRB-03
XMB-02 OPIC-03 LAB-04 SIL-01 /092 W
-----047770 161210Z /43

R 142204Z JUL 78
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 8056
INFO AMCONSUL MONTREAL
AMCONSUL TORONTO POUCH

C O N F I D E N T I A L OTTAWA 03522

E.O. 11652: GDS
TAGS: ETRD, ECON, CA
SUBJECT: GOC/ONTARIO AGREE ON AUTO INVESTMENT INDUCEMENT;
QUEBEC LOOKS ON ANXIOUSLY

REF: OTTAWA 3459

1. SUMMARY. GOC AND ONTARIO HAVE AGREED TO OFFER FORD
AN INVESTMENT SUBSIDY OF LESS THAN CDOLS 75 MILLION
REQUESTED BY COMPANY; BALL IS IN FORD'S COURT AND DECISION
EXPECTED SHORTLY. QUEBEC ACTIVELY SEEKING GM'S PLANNED
ALUMINUM CASTING PLANT AND HAS NAILED DOWN SUBSTANTIAL
GOC PARTICIPATION IN FINANCIAL INCENTIVE TO BE OFFERED TO
GM. END SUMMARY.

2. GOC AND ONTARIO HAVE AGREED TO OFFER FORD A SUBSIDY
TO LOCATE A NEW ENGINE PLANT IN ONTARIO. IT&C MINISTER
HORNER INDICATED THAT INDUCEMENT WOULD BE LESS THAN THE
CDOLS 75 MILLION REQUESTED BY FORD, BUT WAS MUTE ON PRE-
CISE AMOUNT OFFERED AND ON RELATIVE SHARES FOR FEDERAL
AND PROVINCIAL GOVERNMENTS. BALL IS NOW IN FORD'S
COURT. IT&C OFFICIAL TOLD EMBOFF THAT DECISION BY FORD
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IS EXPECTED IN ABOUT TWO WEEKS.

3. QUEBEC INTEREST GROUPS HAVE JUMPED INTO AUTO INVESTMENT
DEBATE AND ARE ACTIVELY SEEKING GM'S PLANNED CDOLS 400
MILLION ALUMINUM ENGINE BLOC CASTING PLANT. JEAN MARIE
POITRAS, PRESIDENT OF QUEBEC CHAMBER OF COMMERCE,
SHARPLY CRITICIZED AUTO PACT FOR CONTRIBUTING TO THE

DETERIORATION OF QUEBEC'S COMPETITIVE POSITION AND FOR PRODUCING BENEFITS FOR ONTARIO AT EXPENSE OF QUEBEC. CARRYING ONTARIO'S "FAIR SHARE" ARGUMENT ONE STEP FURTHER, POITRAS COMPLAINED THAT QUEBEC HAS 30 PERCENT OF CANADIAN MARKET FOR NORTH AMERICAN VEHICLES BUT ONLY 15 PERCENT OF AUTO PRODUCTION. IN CONTRAST, ONTARIO ACCOUNTS FOR 84 PERCENT OF CANADIAN VEHICLE PRODUCTION AND 40 PERCENT OF THE MARKET. POITRAS ALSO STRESSED ECONOMIC ADVANTAGES TO GM OF LOCATING CASTING PLANT IN QUEBEC (E.G., ALUMINUM SUPPLIES AND CHEAP, SECURE HYDROELECTRIC POWER).

4. AT PRESS CONFERENCE JULY 12 IN QUEBEC, FINANCE MINISTER CHRETIEN SAID THAT, WHILE FORD WAS NOT LIKELY TO PUT ITS ENGINE PLANT IN QUEBEC, PROVINCE STILL HAD A CHANCE TO GET GM ALUMINUM CASTING PLANT. CHRETIEN ALSO SAID THAT GOC WOULD PAY THREE QUARTERS OF A CDOLS 81 MILLION INDUCEMENT TO HELP LURE GM TO QUEBEC.

5. COMMENT: CHRETIEN'S STATEMENT UNDERSCORES THE IMPORTANT INTERPROVINCIAL DIMENSION OF THE INVESTMENT INCENTIVE ISSUE. POLITICAL CONSIDERATIONS DICTATE NOT ONLY THAT GOC DEFEND CANADIAN INTERESTS VIS-A-VIS U.S., BUT THAT IT ATTEMPT TO ASSURE ROUGH BALANCE IN INCREMENTAL BENEFITS TO QUEBEC AND ONTARIO WHICH ARISE FROM INVESTMENT DECISIONS WHERE GOC HAS SOME INFLUENCE. MEANWHILE, GM OFFICIALS HAVE TOLD US PRIVATELY THAT
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A DECISION ON THE CASTINGS PLANT WILL PROBABLY NOT BE MADE BEFORE THE END OF THIS YEAR AND INDICATED THAT QUEBEC IS FAIRLY LOW ON THE COMPANY'S LIST OF POSSIBLE LOCATIONS. ENDERS

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INVESTMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 14 jul 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978OTTAWA03522
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780292-0167
Format: TEL
From: OTTAWA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780759/aaaabxmp.tel
Line Count: 98
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 06eb0773-c288-dd11-92da-001cc4696bcc
Office: ACTION COME
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 78 OTTAWA 3459
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 08 jul 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2003480
Secure: OPEN
Status: NATIVE
Subject: GOC/ONTARIO AGREE ON AUTO INVESTMENT INDUCEMENT; QUEBEC LOOKS ON ANXIOUSLY
TAGS: ETRD, ECON, CA
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/06eb0773-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014